REASEARCH PROPOSAL

DOCTOR OF PHILOSOPHY IN THE FACULTY OF COMMERCE

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NANDED.

ON THE TOPIC OF

STUDY OF "BANKING FRAUDS AND IT'S IMPACT ON ACCOUNT HOLDERS: WITH SPECIAL REFERENCE TO PMC BANK IN CENTRAL MUMBAI SUBURBS"

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Title of the proposal:

STUDY OF "BANKING FRAUDS AND IT'S IMPACT ON ACCOUNT HOLDERS: WITH SPECIAL REFERENCE TO PMC BANK IN CENTRAL MUMBAI SUBURBS"

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Introduction:

Strong banking sector is the most important sector in developing countries like India, Bangladesh etc. Finance and banking are very much directly interrelated and they are the life and blood of an economy. Trade and other commercial activities are not flexible without a free and fair banking industry. The first bank that was established in the country was The General Bank of India founded in 1786. The oldest bank in existence in India is the State Bank of India, a government-owned bank in 1806. SBI is the largest commercial bank in the country. After the independence, Reserve Bank of India was nationalized in 1935. Indian banking sector achieve sustainability and stability in last three decade. Today, the banking sector is one of the biggest service sectors in India. Now a days banking sector plays multiple roles. Banking system mainly divided into commercial bank, regional rural bank, cooperative bank etc. India's Banking System has no longer confined to only the metropolitans, but has reached even to the backward corners of the country.

India is a country of 135.26 crores people, spread across 29 states and seven union territories. As per census 2011 There are around 649,481villages and 640 districts in our country. A vast majority of the population, especially in rural areas, is excluded from the easy access to finance. Accessibility of financial services at affordable and appropriate prices has been always a global issue. Hence, an inclusive financial system is required widely not only in India, but has become a policy priority in various countries. Financial access can surely improve the financial condition and living standard of the poor and the deprived section. RBI has been continuously stimulating the banking sector to extend the banking network both by setting up of new branches and installation of new ATMs (Dangi & Kumar, 2013). Financial inclusion means the delivery of financial services, including banking services and credit, at an affordable cost to the vast sections of disadvantaged and low-income groups who tend to be excluding (Chhabra, 2015). Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low-income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. (Singh et al.,2014).

Types of banks in India:

Banks can be classified into various types. Given below is the bank types in India: -

- Central Bank
- Cooperative Banks
- Commercial Banks
- Regional Rural Banks (RRB)
- Local Area Banks (LAB)
- Specialized Banks
- Small Finance Banks
- Payments Banks

Central Bank:

The Reserve Bank of India is the central bank of our country. Each country has a central bank which regulates all the other banks in that particular country.

The main function of the central bank is to act as the Government's Bank and guide and regulate the other banking institutions in the country. Given below are the functions of the central bank of a country:

- Providing guidance to other banks
- Issuing currency
- Implementing the monetary policies
- Supervisor of financial system

In other words, the central bank of the country may also be known as the banker's bank as it provides assistance to the other banks of the country and manages the financial system of the country, under the supervision of the Government.

Co- operative banks:

These banks are organized under the state government's act. They give short term loans to the agriculture sector and other allied activities.

The main goal of Cooperative Banks is to promote social welfare by providing concessional loans

They are organised in the 3-tier structure

- Tier 1 (State Level) – State Cooperative Banks (regulated by RBI, State Govt, NABARD)
    - Funded by RBI, government, NABARD. Money is then distributed to the public
    - Concessional CRR, SLR is applicable to these banks. (CRR- 3%, SLR- 25%)
    - Owned by the state government and top management is elected by members
- Tier 2 (District Level) – Central/District Cooperative Banks
- Tier 3 (Village Level) – Primary Agriculture Cooperative Banks

Commercial Banks

- Organised under the Banking Companies Act, 1956.
- They operate on a commercial basis and its main objective is profit.
- They have a unified structure and are owned by the government, state, or any private entity.
- They tend to all sectors ranging from rural to urban.
- These banks do not charge concessional interest rates unless instructed by the RBI.
- Public deposits are the main source of funds for these banks

The commercial banks can be further divided into three categories:

1. **Public sector Banks** – A bank where the majority stakes are owned by the Government or the central bank of the country.
2. **Private sector Banks** – A bank where the majority stakes are owned by a private organisation or an individual or a group of people
3. **Foreign Banks** – The banks with their headquarters in foreign countries and branches in our country, fall under this type of bank

Regional Rural Banks (RRB):

- These are special type of commercial Banks that provide concessional credit to agriculture and rural sector.
- RRBs are established in 1975 and are registered under a Regional Rural Bank Act, 1976.
- RRBs are joint venture between Central government (50%), State government (15%) and a Commercial Bank (35%).
- 196 RRBs have been established from 1987 to 2005.
- From 2005 onwards government started merger of RRBs thus reducing the number of RRBs to 82
- One RRB cannot open its branches in more than 3 geographically connected districts.

Aspirants can check the list of Regional Rural banks in India at the linked article.

Local Area Banks (LAB)

- Introduced in India in the year 1996.
- These are organized by the private sector.
- Earning profit is the main objective of Local Area Banks.
- Local Area Banks are registered under companies Act, 1956.
- At present, there are only 4 Local Area Banks all which are located in South India.

Specialized Banks:

There are certain banks which are introduced for specific purposes only. Such banks are called the specialized banks. These include:

- Small Industries Development Bank of India (SIDBI) – Loan for a small scale industry or business can be taken from SIDBI. Financing small industries with modern technology and equipment's is done with the help of this bank.
- EXIM Bank – EXIM Bank stands for Export and Import Bank. To get loans or other financial assistance with exporting or importing goods by foreign countries can be done through this type of bank.
- National Bank for Agricultural & Rural Development (NABARD) – To get any kind of financial assistance for rural, handicraft, village and agricultural development, people can turn to NABARD.

There are various other specialised banks and each possess a different role in help develop the country financially.

Small Finance Banks:

As the name suggests, this type of banks look after the micro industries, small farmers and the unorganized sector of the society by providing them loans and financial assistance. These banks are governed by the central bank of the country.

Payments Banks:

A newly introduced form of banking, the payments bank has been conceptualised by the Reserve Bank of India. People with an account in the payments bank can only deposit an amount of upto Rs.1,00,000/- and cannot apply for loans or credit cards under this account.

Options for online banking, mobile banking, issue of ATM and debit card can be done through payments bank. Given below is a list of the few payments bank in our country:

- Airtel Payments Bank
- India Post Payments Bank
- Fino Payments Bank
- Jio Payments Bank
- Paytm Payments Bank
- NSDL Payments Bank

Functions of banks:

The major functions of banks are almost the same but the set of people each sector or type deals with may differ. Given below the functions of the banks in India:

1. Acceptance of deposits from the public
2. Provide demand withdrawal facility
3. Lending facility
4. Transfer of funds
5. Issue of drafts
6. Provide customers with locker facilities
7. Dealing with foreign exchange

Apart from the above-mentioned list, various utility functions also need to be performed by the various banks.

Now a days Indian banking sector is shows continuous improvement after liberalization era but simultaneously it has also faced some serious challenges; one of them being rise in frauds and NPAs. The ascent in bank cheats is stressing, yet it is important that the more noteworthy spotlight on extortion location as of late could likewise be answerable for the higher announcing of bank fakes in India. This kind of unhealthy development of rising fraudulent activities, adversely affected on the banking sectors and deposit holders of the bank as well as Indian economy. In recent years, cases of banking fraud reported in India are on a steady rise. The Reserve Bank of India (RBI) is India's central bank, which controls the issue and supply of the Indian rupee. RBI is the regulator of entire Banking in India. RBI plays an important role in the Development Strategy of the Government of India. RBI regulates commercial banks and non-banking finance companies working in India. It serves as the leader of the banking system and the money market. The RBI carries out India's monetary policy and exercises supervision and control over banks and non-banking finance companies in India. But RBI don't have strong action policy as credit controller.

RBI, defines fraud as "A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank". As mention earlier in past recent years Indian banking sectors facing lots of fraudulent cases like,

1. fraud by Billionaire Jeweler Nirav Modi and his uncle Mehul Choksi in Panjab National Bank
2. Another scam was happened in Punjab National Bank by Rotomac which was around ₹ 3,700 Crores. The company was probed by enforcement directorate and CBI for cheating 7 banks.
3. State Bank of India got involved in banking scam with the jewelry network Kanishk Gold Pvt. Ltd. They were accused of prodding around 14 banks, and the fraud amount was around ₹ 824.15 Crore.

4. On March 28, 2018, ₹86.47 Crore fraud what's happened on the private banking sector Karnataka Bank. The fund was provided to the Gitanjali Gems Limited, initially connected to the promoter Mehul Choksi.

5. United Bank of India case against chairperson and managing director of the company Archana Bhargava etc.

There are so many frauds and scams happened in banking sectors in India but One of the main differences between Punjab National Bank and other bank scams is that the rest of the scams did not bother the account holders. In Indian banking fraud history same case happed in the year 2001 with Madhavpura Mercantile cooperative bank. In early 2001 Parekh and other brokers made a large sum of money when the Bombay Stock Exchange's Sensex saw a bull run; however, when the dotcom bubble burst, the Sensex dropped down to 3,000 points, and Parekh and the bank started having problems. On 8 March 2001, the news broke out that the bank had given a huge guarantee to Parekh which he lost in the stock crash. As little remained in the bank's coffers, public depositors began withdrawing their money; only a few were successful. Still depositors of this bank not received their hard-earned money.

Punjab & Maharashtra Co-operative Bank Limited (PMC), is a multi-state co-operative bank that began operations in 1983. It has 137 branches spread over half a dozen states of India and nearly 100 branches are in Maharashtra. It is regulated by the Reserve Bank of India and registered under the Cooperative Societies Act It also has branches in Karnataka, Goa, Delhi, Madhya Pradesh and Gujarat. It is one of the profitable co-operative banks in India and had earned a total revenue of ₹1,297 crore (US$182 million) and profits of ₹99.69 crore (US$14 million) in the financial year 2019.

The crux of this bank fraud is that the higher management of the PMC bank has given huge loan to the Housing Development and Infrastructure Ltd (HDIL) and its group entities. This fraud case is related to transfer of 70% of the total credit facilities of the PMC bank to HDIL and its associated companies. If we calculate the total amount of the bank fraud then it was Rs 4,355 cr. Now the total NPA of the bank has grown to 73%. The PMC bank allegedly favoured to the promoters of Housing Development and Infrastructure Ltd (HDIL) and allowed them to operate password protected 'masked' accounts. It is found that around 21,049 bank accounts were opened by bogus names to conceal 44 loan accounts. The bank's software was also tampered to conceal these loan accounts.

This bank fraud case is busted by a bunch of women employees of the credit department of the PMC bank. These employees told to the RBI that they were aware of the ghost accounts. When this case came in the light; then customers of the PMC bank rushed to the PMC bank to withdraw their hard-earned money but they were refused to give their deposited money and withdrawal limit is set by the RBI under section 35A under banking regulation act.

Review of Literature:

Many studies (Aghion & Bolton, 1997; Banerjee & Newman, 1993; Banerjee, 2001) discussed that access to finance has been seen as a critical factor in enabling people to transform their production, employment activities and to exit poverty. Researchers have been argued that the very fundamental activity of the banking sector, delivery of credit, are essential to boost any economic activity and enables the generation of capabilities (Sen, 2000).

Dangi and Kumar (2013) examined the initiatives and policy measures taken by RBI and Government of India. This study also focused on current status and future prospects of financial inclusion in India. It has been concluded that financial inclusion shows progressive and valuable changes but sufficient provisions should be incorporate in the business model to certify that the poor are not driven away from banking.

Suryanarayana (2008) focused on definition of inclusion/exclusion with reference to an outcome scenario for broad-based growth as reflected in estimates of production, income, and consumption distribution. The study helps in drawing a sketch of occupational, social, regional profiles of the excluded in the mainstream growth process. Hence researcher made an attempt to provide a perspective, a measure of inclusion, and finally an evaluation based on the available estimates of consumption distribution for the year 2004–2005 for India.

Agrawal (2008) studied the financial inclusion from the behavioral perspective based on both factors supply and demand end. Results revealed that evaluation from the behavioral perspective provided the scope for the policy-makers and marketers to strategically align their approach with the behavioral aspect, without confining their thoughts to the economical evaluations.

Mas (1995) presents the monetary policy issues of the governments. This work starts with the sources of money for the government and then how the government plans to use that. The policy framing and the execution of the plans are the major strategic steps in governments' spending plans. For these policy executions the national banking systems play major roles. Central bank of the country plays the role of the controller of these banks and financial organizations. Banks directly deal with the investments of the commercial and noncommercial organizations. The frauds and scams can happen potentially at any of these organs of the financial system. Therefore, it is the role of the government to keep the checks and balances at the right places to curb the frauds and scams.

With globalization, Kohler (2002) in his speech at a conference on humanizing the global economy stressed the need to increase transparency of financial structures as well as to raise the surveillance of international capital markets. In mid-1990's, World Bank laid out a well-defined strategy to combat different types of frauds and corruption, and jointly with the IMF created financial sector assessment program (FSAP), to assess,

diagnose and address potential financial vulnerabilities. FSAP has undergone several transformations and wider acceptance over the years, since its inception in 1999.

Indian banking system has remained plagued with growth in NPAs during recent years, which resulted in a vicious cycle affecting its sustainability. Chakrabarty (2013) noted in his speech that, while most numbers of frauds have been attributed to private and foreign banks, public sector banks have made the highest contribution towards the amount involved.

Importance of study:

1. Research will help us to understand the importance of financial institutes like different types of banks in regular life of Indian population.

2. Research will help to understand the role of RBI in collapsed banks.

3. Research will help to know the impact of a bank that has collapsed on their depositors.

4. Research will help us to understand the precautions should be taken by depositors of customers.

5. Research will help to create financial awareness among the bank account holders.

Scope of study:

There is a huge scope for improvement in the Indian banking system. **In this research I will take frauds in Indian banking sector from the period of 2001 to 2020.** there is scope of create awareness among the account holders of the bank. They must understand the financial position of bank where they are deposited. **My study area is limited to banking industry, RBI regulation on banking sectors, account holders of PMC bank and area of study Mumbai suburbs.**

Limitation of study:

The study of topic confines to the fraudulent banks with special reference PMC bank in Mumbai suburban – central. Obviously, there are constraints of time and money in conducting the research as an individual research scholar. Also, the research area is limited to Mumbai suburbs.

Objective of the study:

The main objectives of the research studies are as follows: -

1. To understand the importance of banking sectors in current Indian economics scenario.

2. To understand the basic reasons of frauds in banking sectors.

3. Impact of fraudulent banks on their accountholders.

4. To find out the loop holes in RBI policies.

5. To understand the role of RBI against the fraudulent banks.

6. To understand the governmental policy against fraudulent banks.

7. To study the how to protect account holders of fraudulent banks and measuring controls.

8. To create awareness amongst the account holders of bank.

Hypothesis of the study:

H0: - RBI policies are sufficient to handle frauds in Indian banking sectors.
H1: - RBI policies are not sufficient to handle frauds in Indian banking sectors.

H0: - There is adverse effect on the account holders of fraudulent bank.
H1: - There is no effect on the account holders of fraudulent bank.

H0: - There is direct relation between Lack of information and awareness amongst the account holders of fraudulent banks.
H1: - There is no direct relation between Lack of information and awareness amongst the account holders of fraudulent banks.

Research methodology

There are two methods use for collection the data of research work.

1. Primary method of data collection.
   Under this method data will be collected directly by Questionnaire – base on survey of buyers, builders/ developers/ contractors and supplier of raw material.
2. Secondary method of data collection.
   Secondary data will be collected from magazine, thesis report, seminar and conference paper, articles, websites, published books, journals and newspaper etc.

For the purpose of study, the survey method is adopted for the collection of data. This method has been selected keeping in mind the number of account holders of various bank and importantly PMC bank.

a. Sample of the study:

   The population was the people who have accounts in various banks especially PMC bank. Since there are many account holders with various types of account like saving account, current account, pension account holders etc., the population is scattered and it is necessary to give proper attention to all those account holders in the area of Mumbai suburbs. In order to give proper representation to total population, 500 respondents were collected through random sampling method.

b. Statistical tools:

   To give scientific outlook to the study and reach to specific conclusion, the researcher has used various statistical tools like chi – square analysis and or Multinomial logit model. For sample comparison various tabulation, charts, graphs are also used

c. The Graph and Diagram are to be used to present the data of account holders of different banks especially PMC bank.

Hypothesis testing:

To interpret and establish interdependence of collected and analyzed data, various factors affecting the account holders of fraudulent bank. I will used following statistical tools and methodology.

- **Chi- square analysis - χ 2**

  The χ 2 statistic appears quite different from the other statistics which have been used in the previous hypothesis's tests. It also appears to bear little resemblance to the theoretical chi square distribution just described. For both the goodness of fit test and the test of independence, the chi square statistic is the same. For both of these tests, all the categories into which the data have been divided are used. The data obtained from the sample are referred to as the observed numbers of cases. These are the frequencies of occurrence for each category into which the data have been grouped. In the chi square tests, the null hypothesis makes a statement concerning how many cases are to be expected in each category if this hypothesis is correct. The chi square test is based on the difference between the observed and the expected values for each category. The chi square statistic is defined as

$$X^2 = \frac{\sum (O - E)^2}{E}$$

- Σ means to sum up (see Sigma Notation)
- O = each Observed (actual) value
- E = each Expected value

So, we calculate $(O-E)2$**E** for each pair of observed and expected values then sum them all up.

This chi square statistic is obtained by calculating the difference between the observed number of cases and the expected number of cases in each category. This difference is squared and divided by the expected number of cases in that category. These values are then added for all the categories, and the total is referred to as the chi squared value.

- **Multinomial logit model**

In statistics, multinomial logistic regression is a classification method that Generalized logical regression to multiclass problems. i.e with more than two possible discrete outcomes. That is, it is a model that is used to predict the probabilities of the different possible outcomes of a categorically distributed dependent variable, given a set of independent variables (which may be real – valued, binary – valued, categorical – valued, etc.)

Data interpretation:

This is a study of an account holders of with various types of accounts in various banks in Mumbai suburbs. Bank also play vital role in Indian economy as well as life of every account holder but most of the people don't have proper information about bank. The data is analyzed and interpreted so as to get the information based on the objectives and hypothesizes of the study. The information collected from the respondent within the study area was tabulated, analysed and the conclusion were drawn with the help of independent variables like gender, age, occupation and average monthly family income, for awareness of services, used of services and awareness etc.

Chapter scheme:

1. **Introduction:**

   This chapter exhibits introduction of banking sector, different types of banks, different types of account holder, functions of banks, RBI policies for Indian banking selectors, history of fraudulent banks in India, effect on deposit holders of fraudulent bank etc.

2. **Review of literature:**

   This chapter gives as elaborative literature review on problem and suggestions to improve the banking service in India and understand why there is need of banking sector in India to improve Indian economy.

3. **Profile of all kinds of frauds done in banking sectors in India – an overview.**

   This chapter will give us information about the deepness on frauds in banking sectors specially in PMC bank and how they are trying recover, reasons of fraud and its impact on account holders.

4. **Research methodology:**

This chapter introduce with objectives of study, hypothesis of study, universe of the study, the sample and sampling design, data collection, data analysis, limitation and future direction of the study. A detailed survey and technical analysis of these kinds of frauds

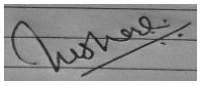
5. **Analysis and interpretation:**

Under, this chapter the profile of PMC bank and its fraud and also compare these kinds of frauds happened in the past of Indian banking sector. And take data of account holders who suffers by this fraud. Political interference in these kinds of frauds.

6. **Summary, conclusion and suggestions:**

This chapter is summery of the findings, conclusion and it will also offer certain suggestions of the study which are presented in this concluding chapter.

7. **Bibliography and annexure**.



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